

Original

CONFIDENTIAL

cc Martin set
Euro Pol: Policy - May 79
Euro Pol: CAP: May 79

Euro Pol: Jenkins: May 79

Note of the Prime Minister's Conversation with the President of the European Commission, Mr. Roy Jenkins, at 10 Downing Street, on 21 May, 1979, at 12 noon

Present:

The Prime Minister

The Rt. Hon. Roy Jenkins

Mr. Michael Franklin

Mr. Crispin Tickell

Mr. B.G. Cartledge

After welcoming the President of the Commission, the Prime Minister said that it would not be necessary to repeat to him the Government's general approach to Europe, which was that inherited by the Conservative Party from Mr. Macmillan and Mr. Heath. There could be no question of the UK ever again standing outside Europe, and the Government was fully aware of the great advantages which accrued to the UK through her membership of a larger group of nations. The UK would continue to fight her corner in the Community vigorously, but this would be done against an overall background of cooperation with her partners. The Prime Minister said that the EMS posed problems for the UK since the Government wished to retain a high exchange rate for the pound for the time being: the outlook on inflation was not good, and it was doubtful that the UK would be able to enter the EMS in September, although she would probably be able to give a demonstration of her good intentions by swapping some of our gold and dollar reserves for ECUs. The Prime Minister said that she was not persuaded that the EMS could in itself bring about the convergence of the EEC economies; this could only be done by the adoption of convergent policies by the member governments.

Mr. Jenkins said that he thought that the argument in favour of UK entry into the EMS in the autumn was that late joiners were apt to suffer disadvantages, just as the UK had done in relation to the EEC as a whole. The Prime Minister agreed, but

/ pointed

CONFIDENTIAL

pointed out that no one could have foreseen that the CAP would have to operate in circumstances of such wide currency differentials, and of such high levels of MCAs. The structure of the CAP made no sense in current circumstances. The Prime Minister said that she did not complain about the fact that, as a result of the UK's lack of competitiveness in the industrial field, Europe enjoyed unchallenged access to the UK market for manufactured goods. She did, however, complain about the fact that in agriculture, where the UK was so much more efficient than her continental partners, the UK was denied an equivalent market for her agricultural produce. At the moment we were losing all ways round, and on fish as well. The present structure of the CAP could not last, and something had to be done about it. Mr. Jenkins said that the budgetary allocation to the CAP was immense: but this problem should not be confused with that of the structure of the CAP itself. It was not possible to solve the problems of the Community budget by way of reforming the CAP, although a further escalation of the cost of the CAP could and should be prevented.

Mr. Jenkins went on to say that the Commission completely stood by its commitment to a price freeze for agricultural products which were in surplus, and wished in addition to do something about milk by means of the co-responsibility levy. If the cost of the CAP were allowed to escalate further, any effort to solve the problem of the Community budget would be neutralised. The Prime Minister told Mr. Jenkins that the UK would stick firmly to the VAT 1% ceiling. Mr. Jenkins expressed some doubt as to whether this could in itself contain the cost of the CAP.

Mr. Jenkins said that everything he had heard from German sources indicated that Chancellor Schmidt's visit to London had gone very well; but he gathered that the Prime Minister had found the Chancellor very hard on the subject of the budget. The Prime Minister said that she had been astonished to find a

/disposition

disposition on Chancellor Schmidt's part to argue about the facts. Mr. Jenkins said that there was good reason to believe that what the Prime Minister had told Chancellor Schmidt about the budget had sunk in, and that the Chancellor was now much more disposed to recognise that there was a problem. The Prime Minister said that she, for her part, was deeply alarmed by the budget situation: partnership implied a just and reasonable deal for everybody, and the UK was not getting one from her EEC partners. Against this background, it was difficult to sell Europe to the British people. The Community approach to fisheries policy also hit the UK very hard: without some give on this issue, as well, it would be difficult to rally the British people to Europe.

Mr. Jenkins said that it had to be borne in mind that the UK was operating against the background of the renegotiation which had produced the present financial terms: there was a disposition to argue that the UK had made her bed, and should lie on it. It would be difficult to achieve the necessary adjustments unless the UK was seen to be co-operative in other fields. The Prime Minister said that it was important that Commissioner Gundelach should stand firm on farm prices. Mr. Jenkins replied that the Commissioner would do so so far as products in surplus were concerned, and also on the co-responsibility levy for milk. The Commissioner's concern was that the UK might destroy his efforts by its attitude to the co-responsibility levy. It would be a mistake to assume that all British agriculture was efficient and all continental agriculture inefficient; in some areas, the difference in efficiency was in fact very small. The Prime Minister said she could not have British dairy farmers paying the co-responsibility levy when less efficient farmers were exempt.

Turning again to the budget, Mr. Jenkins said that it would be important for the UK to avoid giving the impression that the budget was the only focus of interest. The first essential, however, would be to ensure that the budget would be accorded full and serious discussion at Strasbourg. President Giscard, whom the Prime Minister was shortly to meet, would not be keen to

CONFIDENTIAL

- 4 -

give ground on budgetary matters, and he, as President of the Council, would have a major say in the Strasbourg agenda. Mr. Jenkins said that he did not think that it would be realistic for the British Government to aim at a solution to the budget problem in June: the right strategy might be to aim at achieving a solution by the time of the December European Council, under the Irish Presidency. The Prime Minister commented that the first essential would be to secure an agreed statement of the facts of the budgetary situation. Mr. Jenkins said that there was no dispute about the broad essentials of the position; it was perfectly possible to demonstrate what had happened in 1978, and also what would have happened in that year under the 1980 rules. The difficult question was to arrive at an agreed assessment of the impact of the MCAs. In the UK, the MCAs benefited the consumer and the Treasury, but worked to the disadvantage of the farmers, whereas in the FRG the situation was reversed. The Prime Minister said that, even on the basis of the method of payment agreed in 1976, ie. that MCAs were paid to the exporting country, the UK remained the second largest net contributor to the Community budget. Mr. Franklin interjected that the UK would, on the same basis, be the largest contributor if it were not for the transitional arrangements. The Prime Minister quoted the figures in her brief for the net transfers by and to EEC Member States in 1978 and Mr. Jenkins confirmed that they agreed with his own. Mr. Jenkins went on to point out that, although it was possible to be clear about the position in 1978, there were a number of uncertainties surrounding the outlook for 1980. It nevertheless looked as if the UK would remain in net deficit, to the order of 1,440 million ecus if MCAs were attributed to exporters and 1,040 million ecus if they were attributed to importers. In 1980, the UK would probably be paying approximately 20 per cent of the Community budget while accounting for only 15 per cent of the Community's total GNP.

/ Mr. Jenkins

CONFIDENTIAL

CONFIDENTIAL

- 5 -

Mr. Jenkins said that the collective mind of the Community had been shifted so far as the issue of agricultural prices was concerned but was only just beginning to focus on the problem of the budget. He was bound to say that the approach adopted by the UK to other Community issues in recent years had not helped her case on the budget. Mr. Jenkins said that he would like to offer a word of advice about the position of Italy. Italy, like the UK, was in deficit so far as the budget was concerned - although to a lesser extent than the UK - but the Italian deficit seemed to be more cyclical than structural and could cure itself within the next two or three years as a result of other factors. This meant that the same remedies might not apply to both countries and that it might be more advantageous to the UK to seek a separate solution rather than a joint UK/Italian remedy. The Prime Minister commented that to ask for a separate solution seemed to her to be a bad negotiating position.

Mr. Jenkins said that the other members of the Community were antipathetic to the consideration of the UK as a permanently less prosperous country. They were inclined to take the view that the UK's lack of prosperity was largely her own fault; and the argument that the payment of money across the exchanges, as a result of the budget structure, actually held back the UK's rate of growth was on the whole unpersuasive in the Community. It would be better to argue that the effect of Community policies on the UK should be looked at overall and for a significant period in the future, from which it would be evident that the UK was not being given a fair deal.

The Prime Minister said that she fully accepted that the UK could and should be wealthier: but the new Government would not be able to turn the economy round if they were saddled

/ with a drain

CONFIDENTIAL

CONFIDENTIAL

- 6 -

with a drain of public expenditure resulting from the Community budget. She was still a little shocked that the basic facts should not be generally admitted.

The Prime Minister then referred briefly to the dispute between the Commission and the British Government over the order given to Harland and Wolff for a British Rail Ferry. The Prime Minister said that whatever excuses the UK was obliged to offer, Harland and Wolff would certainly get the order. Mr. Franklin asked Mr. Jenkins whether he would be willing to look into the matter with Commissioner Vouel or whether he thought it better that a British Minister should pursue it with the Commissioner. Mr. Jenkins said that he would certainly take the problem up himself but that the British Government could pursue it with Commissioner Vouel in parallel.

The Prime Minister then mentioned the Interest Relief Grant Scheme for offshore supplies. Mr. Jenkins said that he regretted that this matter had been taken up with the Government immediately after the Election: but the Commission had been reluctant to raise it during the Election campaign and Commissioner Vouel had been determined to put the problems on the desks of the last Government before it left office. The Prime Minister said that the Government was watching Mr. Davignon's activities over steel with some circumspection: they were apprehensive lest protectionism should enter the industrial sector as it had the agricultural. Mr. Jenkins assured the Prime Minister that Mr. Davignon did not have a protectionist attitude.

The Prime Minister asked Mr. Jenkins what the UK could do to give the Community evidence of its good intentions. Mr. Jenkins replied that much, but not everything, could be done by using the right words, as the Foreign and Commonwealth

/ Secretary had done

CONFIDENTIAL

CONFIDENTIAL

- 7 -

Secretary had done during his first meeting with his European colleagues. More practically, energy was a field in which the UK had both the resources and the experience to make a positive and constructive contribution instead of dragging her feet as she had done in recent years. Secondly, he was convinced that the UK should agree to a settlement on fish; the last Government had been very close to one. The Prime Minister said that she took a very hard line on the fisheries issue. Fish had been declared a common resource just before the UK's entry into the Community despite, or because of, the fact that the UK had the lion's share of the Community's fishing waters and of the Community's fish. When Mr. Jenkins referred to the possibility that a 12-mile exclusive zone combined with a quota system up to a 50-mile limit might provide the basis for a settlement, the Prime Minister said that she was opposed to quotas which were difficult to monitor. There could be no question of allowing Spain to enter the Community unless a settlement had been reached on fish in advance.

Reverting to the subject of energy, Mr. Jenkins said that it was clear that the Economic Summit in Tokyo would be dominated by energy issues. The Prime Minister said that she found it hard to see what specific agreements on energy the Tokyo Summit could reach. She was concerned that the EEC, and the West as a whole, had never played all the cards which they held in order to exert pressure on OPEC. Co-ordinated research needed to be done on this so that the West was in possession of all the facts which could form a basis of her bargaining position. Europe's agricultural surpluses, which were a burden in some respects, could turn out to be an asset in the context of negotiations with OPEC. Mr. Tickell commented that the CIA had produced a study of this subject in 1976. Mr. Jenkins said that this whole subject would be very suitable for discussion after dinner in Strasbourg.

/ The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

- 8 -

The Prime Minister told Mr. Jenkins that the UK would need the help of her partners over Rhodesia. Mr. Jenkins said that the reaction to what Lord Carrington had said on this subject at his first meeting with the EEC Foreign Ministers had not been as negative as might have been expected. The other Governments of the Nine would inevitably take some time to adjust to the UK's change of policy but the initial reactions of the French, the Danes and the Luxembourgers had been mildly encouraging. In response to Mr. Jenkins' question, the Prime Minister confirmed that the British Government would not take this issue at a gallop: but the African attitudes were hardening and this caused her concern. Unless Bishop Muzorewa and Mr. Sithole were given some encouragement to make the internal settlement work, the consequences for Southern Africa could be very serious. The UK no longer had any basis for maintaining the illegality of Rhodesia's situation and would need constructive help from others. The Prime Minister said that she was very firmly of the view that it was for the people inside Rhodesia to decide on the Government they wanted and not for those outside the country who wished to settle the issue with guns.

Concluding the discussion, Mr. Jenkins expressed the hope that the Prime Minister would find time to pay another visit to Brussels; the Prime Minister said that she would certainly hope to do so.

The discussion ended at 1315.

Bjm.

21 May 1979

CONFIDENTIAL